



MONTHLY BUDGET REVIEW

Fiscal Year 2006

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for April and the *Daily Treasury Statements* for May

June 6, 2006

The federal government incurred a deficit of about \$223 billion during the first eight months of fiscal year 2006, CBO estimates, \$50 billion less than the shortfall recorded through May of last year. Revenues have risen by about 13 percent compared with receipts in the same period of 2005, whereas outlays have grown by about 8 percent.

APRIL RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	316	315	-1
Outlays	196	196	*
Surplus	120	119	-1

Sources: Department of the Treasury; CBO.

* = between zero and \$500 million.

The Treasury Department reported a surplus of \$119 billion for April, about \$1 billion less than CBO projected on the basis of the *Daily Treasury Statements*. Most of that difference was due to lower-than-estimated revenues from individual income taxes.

ESTIMATES FOR MAY (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	153	192	39
Outlays	188	231	42
Deficit (-)	-35	-39	-3

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a deficit of \$39 billion in May, about \$3 billion more than the deficit recorded in May 2005. Receipts grew by about \$39 billion compared with the same month last year, while outlays grew by \$42 billion.

Receipts in May 2006 were 26 percent higher than in May 2005, as receipts in all of the major categories grew strongly. Nonwithheld receipts of individual income and payroll (social insurance) taxes were up by about \$15 billion (or more than 70 percent). That substantial increase occurred in part because a larger share of receipts from tax returns filed in April was recorded in early May

this year than in May of last year. (For the two months combined, nonwithheld receipts were up by about 20 percent this year.) Receipts of individual income and payroll taxes withheld from paychecks were about \$18 billion higher (a gain of almost 16 percent). Those receipts were boosted by an additional business day this May. Receipts from corporate income taxes and Federal Reserve earnings were each higher by about \$2.5 billion.

An accounting adjustment and a shift in payment dates affected the growth in outlays. First, changes in the Department of Education's estimates of the subsidy cost of student loans made in previous years increased reported outlays by about \$11 billion in May. Second, because May 1, 2005, fell on a weekend, about \$13 billion in payments that would ordinarily have been made at the beginning of that month were instead made at the end of April. Without those two factors, outlays in May would have grown by about 9 percent from 2005 to 2006. Adjusted for shifts in payment dates, Medicare spending was up by about \$8 billion compared with the same month last year. Outlays for Social Security and net interest on the public debt grew by about \$3 billion each, and defense spending was up by about \$2 billion, CBO estimates.

BUDGET TOTALS THROUGH MAY (Billions of dollars)

	Actual FY2005	Preliminary FY2006	Estimated Change
Receipts	1,369	1,545	175
Outlays	1,642	1,767	126
Deficit (-)	-272	-223	50

Sources: Department of the Treasury; CBO.

The federal government recorded a deficit of \$223 billion for the first eight months of fiscal year 2006, CBO estimates, compared with a shortfall of \$272 billion for the same period last year. Revenues are about \$175 billion higher so far this year; outlays have risen by \$126 billion.

Note: Unless otherwise indicated, the figures in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH MAY

(Billions of dollars)

Major Source	Actual FY2005	Preliminary FY2006	Percentage Change
Individual Income	605	687	13.6
Corporate Income	141	184	30.1
Social Insurance	525	563	7.2
Other	<u>98</u>	<u>111</u>	13.3
Total	1,369	1,545	12.8

Sources: Department of the Treasury; CBO.

Receipts for the first eight months of the fiscal year have increased by about 12.8 percent, the second highest rate of growth for that eight-month period in the past 25 years, surpassed only by last year's rate of 15.5 percent. All major sources of receipts have contributed to the increase. Individual income and payroll taxes— withheld and nonwithheld, net of refunds—have accounted for about two-thirds, or \$120 billion, of the increase. Withheld individual income and payroll taxes are higher by about \$76 billion (or 7.6 percent), with relatively stronger growth occurring in the more recent months. Those gains suggest solid growth in wages and salaries in the national economy.

Nonwithheld individual income and payroll taxes have increased by about \$50 billion, or 20 percent, compared with the first eight months of a year ago. Most of that increase occurred in the past three months when the Internal Revenue Service processed most of the 2005 tax returns. Refunds to individual taxpayers are about \$7 billion, or 4 percent, higher than refunds during the previous fiscal year.

Receipts from corporate income taxes have continued to show strength in the first eight months of this fiscal year, rising by about \$43 billion, or 30 percent. That rate of growth is roughly consistent with before-tax profits as measured in the national income and product accounts, which rose 29 percent in the first half of the fiscal year compared with the same period last year. The quarterly payment that is due on June 15 for most firms should provide a good indication of corporate receipts for the full fiscal year.

OUTLAYS THROUGH MAY

(Billions of dollars)

Major Category	Actual FY2005	Preliminary FY2006	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	306	328	7.3	7.4
Social Security				
Benefits	340	360	5.8	5.8
Medicare	215	244	13.4	15.3
Medicaid	120	118	-1.7	-1.7
Other Programs and Activities	<u>536</u>	<u>566</u>	5.6	7.2
Subtotal	1,518	1,617	6.5	7.4
Net Interest on the Public Debt	<u>124</u>	<u>151</u>	21.7	21.7
Total	1,642	1,767	7.7	8.5

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, or changes in the accounting of certain health care payments of the Department of Defense.

Outlays through May were 8.5 percent higher than in the first eight months of fiscal year 2005, CBO estimates, after adjusting for calendar-related shifts in the timing of certain payments.

Defense outlays increased by 7.4 percent through May (on an adjusted basis), roughly the same rate of growth recorded for fiscal year 2005 as a whole. The new Medicare prescription drug benefit accounted for roughly half of that program's 15 percent gain through May (adjusted) and contributed to the 1.7 percent decline in Medicaid spending (because Medicare is now picking up some of the cost of drugs previously covered by Medicaid). Outlays for net interest on the public debt were 22 percent higher than in the first eight months of 2005.

Most of the growth in spending for "other programs and activities" stems from outlays by the Federal Emergency Management Agency for flood insurance claims and disaster relief, resulting primarily from the 2005 Gulf Coast hurricanes. Without that \$28 billion increase, spending for the broad array of programs in that category would be only slightly greater in 2006 than it was in 2005.